

## ABERDEEN CITY COUNCIL

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COMMITTEE	Finance, Policy and Resource Committee
DATE	1 <sup>st</sup> December 2016
DIRECTOR	Pete Leonard
TITLE OF REPORT	Aberdeen Community Energy - Community Bond Issue
REPORT NUMBER	CHI/16/295
CHECKLIST COMPLETED	Yes

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### 1. PURPOSE OF REPORT

The purpose of this report is to advise the committee in response to the elected member motion tabled at the Communities Housing and Infrastructure Committee of 1 November 2016, and assess the options available to the Council in regard to investing in the Aberdeen Community Energy Community Bond Issue for the Donside Hydro Scheme, Scotland's first urban community hydro project.

### 2. RECOMMENDATION(S)

It is recommended that the committee:

1. Note the success of Aberdeen Community Energy in progressing the Donside Hydro Scheme, which includes putting in place the relevant capital financing; and
2. Note the existing support the Council is providing to the Tillydrone community through the approved Participatory Budgeting pilots; and
3. Instruct officers from Public Infrastructure & Environment Services to contact Aberdeen Community Energy to discuss options for supporting the landscaping initiatives related to the Donside Hydro Scheme, and report these to a future Communities Housing and Infrastructure Committee; and
4. In the event of Aberdeen Community Energy's Bond issue and contingency investment plans for the Donside Hydro Scheme failing to raise the required amount of capital finance, delegate authority to the Head of Finance and Head of Legal and Democratic Services to enter discussions with Aberdeen Community Energy on how the Council could provide financing to the project.

### 3. FINANCIAL IMPLICATIONS

The range of potential financial implications are detailed in the body of the report.

### 4. OTHER IMPLICATIONS

The Donside Hydro project will support the local community and provide renewable energy contributing to reductions in city wide carbon emissions.

### 5. BACKGROUND/MAIN ISSUES

#### **Description of the Scheme**

Aberdeen Community Energy (ACE) is a Community Benefit Society which was set up in 2015 by the Donside Community Association (DCA) to build, own and operate the Donside Hydro Scheme on behalf of the community.

The Donside Hydro Scheme harnesses energy from the neighbouring River Don to create electricity to be sold to the national grid. The construction of the scheme is now complete and it is operational.

The funds generated from the scheme will contribute to a community fund which will be used to improve the landscape beyond the scheme promoting community activity including sports, food growing and social activities. It is anticipated by ACE that the community fund will contribute up to £400,000 back to the community during the first 20 years of the scheme's operation.

It is anticipated that the scheme will generate around 520,000kWh per year which will represent clean, green, local electricity. The scheme should provide enough electricity to power around 130 homes and displace an estimated 240 tonnes of carbon emissions.

In addition to reducing carbon emissions the scheme will improve the local landscape as the development site was formerly vacant and derelict. Planting will take place to improve the landscape for wildlife.

Developing the site including public access to and around it will improve the community landscape by presenting a new space for people to enjoy for health and recreation benefiting the wider community of Tillydrone, one of the most deprived in Scotland.

## **Funding Arrangements**

In order to fund the scheme ACE launched a share offer of £500,000 on 9 August 2016. Due to overwhelming demand, the offer was fully subscribed within three weeks and closed on 5 September 2016.

The community is now looking to raise a further £600,000 from an issue of £1 bonds on a 4% fixed-rate of return. An investor may offer to invest between £100 and £100,000 in the Bond Issue, which will be open until 31 March 2017, although ACE reserve the right to close the scheme early if sufficient additional grant funding can be attracted to help reduce the capital finance burden of the project, or can negotiate a loan with lower interest rate than the bond. The maximum length of time a bond can be held is 15 years. Earlier withdrawal of any investment would be at the discretion of ACE, and subject to their cashflows.

Council officers have been informed that over a third of the available bonds have already been subscribed to, with a potential 4 months still available to investors to subscribe.

## **Investing in Community Energy Schemes**

The last few years have seen significant growth in community energy schemes as they represent a way for communities to generate income to benefit their community while at the same time supporting the production of green energy.

The Scottish Government has a target for energy generated by community schemes, and community empowerment in energy is anticipated to be a core theme in the Scottish Government Energy Strategy due to be issued for consultation in early 2017.

The Donside Hydro Scheme supports the target to reduce carbon emissions set out in Powering Aberdeen.

The scheme is the first community scheme to be developed in Aberdeen and the local improvements that will be generated through the community fund will benefit the local community.

## **Potential Options for Aberdeen City Council**

### **Scenario 1 – ACE successfully achieve full subscription of the Bond issue without intervention by the Council**

There is no specific statutory obligation or legal agreement which requires the Council to contribute to the Donside Hydro Scheme. It seems likely on the basis of the response to the share issue that there will be the required take up of bonds currently offered and the scheme should be able to proceed on a firm financial footing. The current level

of bond subscriptions are a positive indication that a similar position will be achieved by the specified closure date, and ACE are to be applauded for their efforts in galvanising the community to this outcome.

ACE has indicated that should the bond issue fall short of raising the planned amount of capital, back-up finance has already been agreed. This finance does not require any investment from the Council. The community will have successfully sourced financial requirements without reliance on the Council, demonstrating a successful community led initiative.

### **Scenario 2 – “In Kind” investment by the Council in the Donside Hydro Scheme**

In August 2016 the Communities Housing and Infrastructure committee approved report CHI/16/175 – Participatory Budgeting for Locality Planning. The report made a commitment to the Woodside / Tillydrone / Seaton community to allow them to participate in decision-making and allocate the resources. This decision allows the community to determine how the Council’s activities can best support local activities.

The project will require the landscaping of the area surrounding the installation. The Council has services which could provide “in kind” support by agreeing to undertake this type of work, however this will require resources to be re-prioritised from existing commitments potentially to the detriment of current maintenance regimes. As there has been no contact to date between ACE and the relevant Council officers, this possibility has still to be fully investigated.

### **Scenario 3 – ACE does not achieve full subscription of the Bond issue**

The Donside Hydro Scheme Bond issue is currently open until 31 March 2017. It will not be possible to confirm if any bonds remain unsubscribed until after that date. ACE has confirmed that they have contingency funding plans in place for the scheme.

The Council should be seen to be encouraging community involvement and investment. There is a risk that if an offer is made by the Council to provide a financing solution to the Donside Hydro Scheme well before the bond closure date, it undermines ACE’s efforts to identify other investors for the project.

The Treasury Management Investment Strategy for 2016/17 to 2018/19 was approved in report CG/16/098 – Financing Strategy for the Capital Programmes by full Council in August 2016. The agreed investment priorities are security of capital and liquidity of investments, and as a result only counter parties with the highest credit ratings are used.

As a Registered Community Benefit Society, Aberdeen Community Energy does not hold a credit rating. The society is owned by its members, whose financial liabilities are limited to the value of their initial share investment. This style of organisation was not included in the report to Council and so would require an exception to be made to the previously agreed counter party list. This could potentially impact on the Council's own credit rating by setting a potential precedent for investment in community schemes.

Investing directly in the Donside Hydro Scheme bond issue may not be the most appropriate financial mechanism for the Council to demonstrate support for the project. Without clarity on the level of any funding shortfall it is difficult to make a recommendation on how the Council could commit financial support. Further discussions would need to take place between ACE and the relevant Council officers to identify a mutually beneficial solution.

## 6. IMPACT

### **Improving Customer Experience –**

The local community around Donside and Tillydrone will benefit from the scheme through improvements to their local area. As the funds generated by the scheme will be managed by the local community, local people will have the option of being directly involved in decision making regarding the actions to be taken to improve their local community.

### **Improving Staff Experience –**

Endorsement of the scheme demonstrates the Council's commitment to local projects that benefit the local community. There may also be opportunities for staff to gain learning and experience from the scheme and support the schemes learning programme.

### **Improving our use of Resources –**

A commitment to the scheme could support ethical investment by channelling Council resources to support a local community scheme which will generate benefits for the local community and contribute to reducing carbon emissions within the city. However, this must be balanced by the Council's duty of Best Value towards employing financial resources in a prudent manner.

### **Corporate –**

- Although the emission savings are relatively modest the scheme is significant within the strategy for Powering Aberdeen as it the first community renewable energy scheme.
- The Community Plan and Single Outcome Agreement sets the ambition for Aberdeen to be a socially, economically and environmentally sustainable city. This scheme supports all these principles.

- The five year business plan 2013-2018-sets sustainable economic growth for the benefit of national outcomes as a key priority.

#### **Public –**

This report is likely to be of interest to citizens in the Donside and Tillydrone area as it demonstrates the city council's endorsement for the project.

### **7. MANAGEMENT OF RISK**

The risks relating to potential investment in the scheme by Aberdeen City Council are set out below.

<b>Risk</b>	<b>Risk Level</b>	<b>Mitigation/Control</b>
The ACE hydro scheme folds	Medium	ACC has no control over the management or future viability of the scheme.
Impact on the Council's credit rating	High	Continue with the approved treasury management investment strategy.
Could be unlawful State Aid	Medium	Whether or not it was unlawful State Aid would be a matter of law out-with the Council's control.

### **8. BACKGROUND PAPERS**

Further details can be found on the Aberdeen Community Energy web site <http://acenergy.org.uk/>

### **9. REPORT AUTHOR DETAILS**

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